

## Higher than normal gas prices may be with us for awhile

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The Idaho Public Utilities Commission is asking Idahoans to take steps now to prepare for what appears to be an indefinite period of higher than normal prices for natural gas.

“It seems that the gas ‘bubble’ which kept gas prices quite low, almost in defiance of forecasts of looming shortages and higher prices, has finally burst,” said Paul Kjellander, president of the Idaho Public Utilities Commission.

Since the mid-1980s, most owners of new homes and businesses chose natural gas as their heating fuel, taking advantage of low prices. Also, gas-fired combustion turbines became the fuel of choice for most new electric generators. For 15 years, natural gas prices in Idaho hovered around 60 cents per therm, sometimes getting as low as 55 cents. But those low prices started a rapid upward trend in 2001 on the wholesale market, resulting in similar increases for customers of Idaho gas utilities. Now it is not unusual for customers to pay 80 cents and even up to 90 cents per therm.

“Unfortunately, the recent price levels don’t seem to be an isolated event that will go away in a few months or even a year,” said Commissioner Marsha Smith.

Commissioner Dennis Hansen said the current gas situation “presents an unparalleled national opportunity to raise public awareness of energy prices and to provide consumers with the tools to respond.”

“We are urging Idahoans to take a long-term view,” Hansen said. “The decisions you make now when you put in your heating and other appliances will impact your overall utility bills for years to come.”

Idahoans have seen their gas bills go up because the costs that local gas distribution companies incur to buy gas are passed directly on to customers if the commission finds those costs were prudently incurred. When utilities’ gas costs increase, so do yours. Today, gas supply costs account for more than half of your total gas bill. The rest of your bill pays costs for distribution, transmission, overhead and profit.

A number of causes are cited as reasons for the rapid increase in natural gas prices:

### ***1. The cost of gas on the wholesale market.***

Natural gas is a commodity, subject to the laws of supply and demand. A shortage of supply, compounded by a severe winter in the East last year, drove gas prices up last winter. Demand for natural gas is rapidly increasing over the long term. Natural gas is still the fuel of choice for home heating, electricity generation, industrial processes and transportation. All those uses impact supply and when supply is short, the market responds with higher prices. In the old days,

demand was slack during the summer. Gas companies used this period of lower prices to stock up for the winter. Today, use of gas for electricity generation has taken much of that seasonality out of the market in addition to raising overall demand for gas.

Market forces were not as big a factor in determining your gas rates until restructuring of the gas industry in the late 1980 and 90s. Before then, the federal government largely determined gas prices. In an effort to increase competition and address shortages, the nation resorted to more of a free-market approach, deregulating natural gas at the wellhead, which allowed producers to sell to whomever they wanted at whatever price they wanted. Natural gas became a commodity traded on the wholesale market just like wheat and potatoes. Because natural gas is a commodity that many of us can't or won't do without, demand doesn't necessarily fall off in response to higher prices.

## ***2. Weather***

Natural gas consumption is directly related to temperature and weather. A hotter than normal summer or colder than normal winter could potentially trigger gas shortages and price volatility.

Historically, a harsh winter like the one experienced on the East Coast last winter would not impact those of us in the West. But the recent completion of major gas pipelines means that gas that was once limited to Western markets is now transported to all corners of the nation. For example, the Alliance Pipeline transports northwestern Canadian gas into Chicago. The Kern River (southwestern Wyoming) pipeline expansion doubled the capacity of Rocky Mountain gas that can be shipped into southern California. When severe winter weather in the East caused shortages, gas was shipped from Western markets, shortening supply here and driving up prices.

## ***3. Power plants relying more on natural gas***

As reliance on power generated from other sources – coal, nuclear and hydro – has decreased, generation from natural gas sources has increased. All three of Idaho's major investor-owned electric utilities have either built their own gas plants or contracted to buy electricity from merchant gas plants in the last decade.

To put it into perspective, one natural gas-fired power facility running at capacity can use as much gas on a daily basis as all the heating customers in northern Idaho.

Some estimates indicate that electricity demand will account for one-third of total end-use natural gas consumption in the next 20 years.

## ***4. Production not keeping pace***

At the same time demand increases, domestic production of gas has declined 4 percent since 2001. While the actual number of drillings rigs is up, existing wells are not producing at historic levels and new wells are increasingly deeper and often further offshore. New gas sources are

expected to come on line, including liquid natural gas from offshore, but those sources will take years to develop.

## **How you can respond**

We know that a lot of these factors driving up your gas bill – weather, markets, increased demand – are beyond one consumer’s or even one state’s control. But there are steps you can take to lessen their impact on your life.

Simple steps like these can save a lot:

- Set your thermostat to 70 degrees or lower during the day and at 68 or lower at night. A programmable thermostat that automatically reduces heat at night or while the house is unoccupied can lower heating bills by 5 to 10 percent.
- Clean your air filters and plug air leaks in cracks around windows and doors. Wrap hot water heaters and insulate pipes. When considering purchasing a new gas appliance, pay close attention to its efficiency rating.
- Contact your gas company about setting up an equal payment plan to spread high winter bills over a 12-month period.
- Consider turning down the thermostat on your hot water heater. The thermostat, usually an easily accessible and readable dial on the side of the appliance, can be turned down to the middle of the temperature range or below without a noticeable difference in water temperature. This probably won’t work as well for large families that use lots of water and push their water heaters to the limit.

You can find other conservation tips from Idaho utilities, from the Idaho Energy Office and from the federal Department of Energy by going to the “About Rising Natural Gas Prices” link on the IPUC website.

Some consumers may qualify for the Low Income Energy Assistance Program or similar programs. You can apply at community action agencies in your area. A list of them can be found on our “About Rising Natural Prices,” link by clicking on “Energy Assistance Resources.” On that same link is information about energy assistance programs offered by utilities.

The link also provides information regarding energy-efficient home construction and improvements as well as finding appliances that help to lessen energy bills.